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THE PROPOSED INCREMENT TAX FOR NEW YORK

IN the spring of 1911 Mayor William J. Gaynor of New York City appointed a Commission of five citizens to ascertain and report upon new sources of city revenue. After nearly two years of investigation and deliberation the Commission rendered its report on January 11, 1913. Its recommendations cover some thirty different measures and, if adopted, would add immediately between four and five millions of dollars to the city's income. The most important recommendation, and that which has attracted most attention, provided for a perpetual tax of one per cent on the future increases of land values. During the last decade the assessed valuation of land in New York City has increased at the average rate of one hundred and fifty million dollars per year. Assuming that this rate of increase will be maintained in the future, the proposed increment tax would yield a revenue increasing on the average by one million and a half every year, so that in the twentieth year it would amount to nearly thirty million dollars.

In New York City real estate constitutes the source of about seventy-five per cent of the municipality's revenue. The remainder is drawn from a personal property tax, of which less than fifty per cent of the levy has proved collectible; from rentals of city property and franchises; and from fees, fines and licenses. It was popularly supposed that the Commission, taking into account the fact that real estate was already heavily taxed, would look exclusively to other sources for new revenue. The recommendation of an unearned increment tax has, therefore, aroused vigorous protest from real estate interests, who insist that the imposition of such a tax, particularly at a time when the real estate market is depressed, would cause a depreciation of land and result in a foreclosure of many mortgages.

The following Section from the Commission's Report discusses the nature of the proposed tax and the manner of its levy:—

4. *An Unearned Increment Tax on Future Increases in Land Values*

The attention of the Commission was early called to the desirability and justice of a tax upon what is called the unearned increment of land values. During the last decade some form of this tax has received legislative approval in several foreign countries, notably Germany and England. Our study of the experience of foreign cities with this tax, and of the arguments upon which it is based, has convinced us that it should be adopted in New York City.

We do not, however, favor the methods of levy and collection which have thus far been followed in other countries. There the law, as a rule, provides that the tax shall be collected only upon the sale or transfer of a piece of land, and the rate of the tax varies both with the amount of the increase in value and with the number of years that have elapsed since the last preceding sale or transfer. This method seems to us needlessly cumbersome. Furthermore, the yield from the tax so levied and collected is neither regular nor uniform, and does not make possible a satisfactory budget forecast.

It seems to us most important, both for the municipality and for the owner of land, that an increment tax should be of the simplest nature possible, that the approximate amount of its yield should be easily calculable, that it should yield a steady and increasing return, and that it should not unduly strain the cash resources of the taxpayer.

We, therefore, recommend an increment tax of one per cent per annum to be perpetual upon all increments of land values as shown by comparison with the assessed valuations of the year 1912, and to be in addition to the general tax levied upon all real estate. If, for instance, the assessed value of a piece of land rises from \$100,000 in 1912 to \$110,000 in 1913, the owner would be called on to pay the general tax, say at the rate of 1.83, which would amount to \$2,013, and in addition the increment tax of one per cent of \$10,000, or \$100.

Such an increment tax would be a levy in perpetuity upon all forms of economic rent hereafter created by the growth of the City. In this respect it differs radically from the tax in force in foreign countries. In Germany and England the increment tax, varying from ten to forty per cent, is levied once for all on the capital value of the land. The owner of land, having once paid the tax, is entitled thereafter in perpetuity to the entire yield or rent. We believe it a wiser policy for the City to retain a perpetual claim upon the yield or rental value of the increment, for then it will

command a source of increasing revenue that will not bear oppressively upon the taxpayer.

The proposed tax should not be levied upon any increment which results from the labor or expenditures of the owner. If land appreciates because of improvements paid for by the owner, such as grading and clearing, or connections for water, light and sewage, or street openings, paving, etc., such an increment, to the extent that it represents capital invested by the owner, would not be subject to the tax. We propose, in short, that the tax shall be levied upon only the "unearned" increment, which results from the growth of the City and from improvements made by the City or by others than the owner himself.

If, therefore, the value of a piece of land should rise from \$100,000 in 1912 to \$110,000 in 1913, and the owner can show that he has expended \$4,000 in permanent improvements, either upon his own initiative or in payment of special assessments levied by the municipality, he would be subject to an increment tax on only \$6,000; and thereafter the base valuation of the land, from which future increments would be calculated, would be \$104,000 instead of \$100,000.

The present owners of land in the City cannot object that the proposed tax would produce any material effect upon values. Assuming that land values now represent a capitalization of income on a basis of five per cent, the present tax rate of 1.85 is equal to twenty-seven per cent of the income from land and is responsible for a corresponding permanent depreciation in the market value of land. An increment tax of one per cent would be equivalent to the annual appropriation of only about 12.5 per cent of the increased yield or rent underlying the increment of capital value. It would slightly retard the advance of values, but would have no effect whatever upon the market value of land whose rent is stationary or declining. It should be noted, however, that in the long run such an increment tax would tend toward the reduction of the general tax rate and so toward a general appreciation in the case of all land. The potential or speculative value of vacant land in some cases might be slightly depressed by the imposition of an increment tax, for the value of such land sometimes represents in part the capitalization of an expected increment. The tax, however, would be so small a part of the increment that it practically would be a negligible factor as between buyer and seller.

The average increase in the land values of New York City during the past decade was about \$150,000,000 a year. On that basis an increment tax of one per cent would yield in the first year a revenue of \$1,500,000; in the second year, \$3,000,000; in the third year, \$4,500,000; in the fourth year, \$6,000,000; and so on, until in the tenth year its yield would approximate \$15,000,000.

Land in New York City is assessed as nearly as possible at its market or selling value, without regard to the rental which it actually yields. In theory, at least, unimproved land is taxed as heavily as that which is improved. Granting, therefore, that the assessments are made honestly and intelligently, an unearned increment tax can be applied equitably to all classes of land within the city limits. In European cities, where taxes are based upon actual yield or rental, a tax thus levied would of course be inequitable.

On account of the rapid shifting of the population of New York City, due to the construction of subways and other means of transportation, real estate in some sections of the city is declining in value and almost in the same proportion is increasing in other sections. It is impossible, when improvements are made, to determine by special assessment the extent to which certain pieces of property will be benefited, and of course no effort is made to determine the depreciation that will be caused in other quarters by the resultant shifting of business or population. The proposed increment tax would have the effect of increasing the tax rate upon land benefited by the growth of the city and by improvements in transportation facilities, and would make possible at the same time the lowering of the rate of taxation on the property that suffered from such developments. It would, in other words, change the impact of the real estate tax, making it bear heaviest upon those best able to pay it.

The tax rate in New York City in 1912 was 1.85 per cent. Such a rate is manifestly an important factor in fixing the market value of a piece of land. Since the proposed increment tax would have the net effect of increasing the tax rate upon land benefited by developments in the future, and of lowering the rate upon land not so benefited, its tendency would be to check speculation in the first class of land and to sustain the market value of the second.

It is worth noting that the Commission does not recommend that any percentage of increase in land values shall be exempt from the tax. It does not proceed upon the assumption that an owner of land is entitled to four or five

per cent upon his investment whether or no he improves his property. The assumption, on the contrary, is that a land owner in the city gets a fair return upon his investment if his land is improved, and that he is not entitled to any return if it is unimproved.

Underlying the proposed tax is the assumption that property will be fairly assessed. The proposed tax is criticized upon the ground that this assumption is unwarranted; it being held that the inducement to corrupt assessors would be irresistible. Evidently the efficiency and justice of the tax must depend upon the honesty and intelligence of the assessment board. This is true, however, of the taxes now levied in New York City, and the increment tax would add little to the incentive to secure undervaluation by corrupt means.

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